

August 1, 2012**Job Protection and Recession Prevention Act of 2012 on Floor**

This week, H.R. 8 will be considered by the House to prevent a \$400 billion tax increase from falling on the economy that would occur from allowing tax relief to expire at the end of this year. Details of the legislation:

2001/2003 Tax Cut Extension: The 2001 and 2003 tax cuts—otherwise set to expire at the end of 2012—are extended for one year (through the end of 2013). Some of the main provisions of note:

- **10% Tax Bracket:** One-year extension of the lower 10% income tax bracket (which would otherwise rise to 15%).
- **Other Tax Brackets:** One-year extension of the lower 10%, 25%, 33%, and 35% income tax brackets.
- **Child Tax Credit:** One-year extension of \$1,000 child tax credit (otherwise scheduled to drop to \$500 in 2011).
- **Marriage Penalty:** One-year extension of marriage penalty relief. Specifically, the bill extends the standard deduction/15% rate bracket set at two-times-single for married filed jointly.
- **Education Tax Provisions:** Among other things, the legislation extends for one year the Coverdell education savings provisions from the 2001 tax relief law (annual \$2,000 contribution limit) and the higher student loan interest deduction phaseouts (\$65,000 individual/\$130,000 married couple).
- **Capital Gains and Dividend Taxes:** One-year extension of the 15% top rate on capital gains and dividend income.

Fact of the Week: Federal tax revenue was **15.4%** of GDP in 2011. The average of the past few decades is **18%** of GDP. But by 2022, absent enactment of legislation to prevent tax increases, the federal tax burden (not accounting for state and local taxes) will rise to **21%** of GDP—the *highest level in American history*.

Death Tax: The bill extends the lower 35% rate and a \$5 million exemption, otherwise set to expire at end of 2012, through 2013. In 2010, per the 2001 tax law, there was no “death tax.” Under current law, it goes back to 55% with a \$1 million exemption in 2013.

AMT Patch: The legislation provides for a \$78,750 AMT exemption amount for married couples in 2012 and a \$79,850 exemption in 2013 (it was \$74,450 in 2011 and would drop to \$45,000 without a “patch”) and a \$50,600 exemption amount for singles in 2011 and a \$51,150 exemption in 2012 (it was \$48,450 in 2011 and would drop to \$33,750 without a “patch”). This would prevent for two years a huge, unintended tax increase on 25 million taxpayers.

Legislation Providing for Expedited Tax Reform Consideration on Floor

The purpose of H.R. 6169 is to provide for expedited consideration of tax reform legislation in the 113th Congress. In order to be eligible for expedited consideration, a tax reform bill would have to:

1. consolidate the number of income tax code brackets from 6 to not more than 2.
2. reduce the corporate tax rate to 25% or less (compared to 35% currently).
3. repeal the Alternative Minimum Tax.
4. maintain revenue of between 18% and 19% of GDP.
5. move from a “worldwide” to a “territorial” system of taxation.

The expedited process for consideration could lead to introduction of a bill by April 30, 2013, committee consideration by May 20, 2013, and House floor action by early June of that year. In the Senate, cloture (requiring 60 votes) would not have to be invoked to proceed to consideration of a tax reform bill, or to approve amendments, but cloture might still have to be invoked in order to proceed to a final vote on the bill.



For more information, please contact Brad Watson at x69719



America's Two Economies

By: Daniel Henninger

For a long time, the United States had one economy. Now we have two economies that compete for America's wealth: A private economy and a public economy. The 2012 election will decide which will be subordinate to the other. One economy will lead. The other will follow.

How the U.S. arrived at the need to choose between two competing economies reveals a lot about the political polarization in the country. Any history of the Democratic Party in the 20th century will recognize its roots in the American labor movement. The party was defined by the names of those unions. The United Mine Workers. The United Auto Workers. The Brotherhoods of Teamsters and Railroad Workers. Consider what those names represented: Both Democrats and Republicans were rooted in the private economy. Unionized workers knew then that this private economy was where they made their living. The arguments were over dividing the productive fruits of that economy. That was your father's Democratic Party.

From the 1960s onward, the *professional* Democratic Party began to lose its relationship with the private economy. Democratic politicians drew closer to a rising public-sector union movement and its campaign financing, while the private unions declined. This meant the party itself was slowly disconnecting from the machinery of the private economy and becoming part of a rising parallel economy, the public economy of government.

There was one other big event that convinced Democrats that their public economy was equal to or better than the private economy. It has to do with the Democratic Party's moral identity. After JFK's assassination, Lyndon Johnson passed the building blocks of the Great Society, notably Medicare and Medicaid. But most importantly came the Voting Rights Act of 1965. The legislative events of that period (no matter that they passed with bipartisan votes) convinced the Democratic Party once and for all of government's moral efficacy. Public spending, conclusively, was now a public good.

Today the private and public economies are in head-to-head competition for the nation's wealth—with the private economy calling that wealth capital or income, and the public economy calling it tax revenue and making moral claims for spending tax revenue.

Until recently and except for the Reagan years, the Republican Party has largely been a confused onlooker, uncertain how to embrace the private economy. In the 1990s, the party embraced the private sector mainly as a source of contributions via K Street lobbyists. In short, crony capitalism.

With the Obama administration, the tensions between the country's two economies clarified. The \$831 billion spending bill in 2009 was intended to stimulate hiring of public-sector workforces but also among the satellite businesses that are subsidiaries of the public economy. Barack Obama's routine use of the traditional private-economy term "investment"—in energy, education and such—is the public economy claiming capital for its needs.

President Obama is telling the private economy it must subordinate itself to the public economy's moral efficacy. The passage in 2010 of the Affordable Care Act, with no Republican support, was justified as a 1960s-type act of moral necessity. The private economy, in his view, can't compete on that basis.

In the November 2010 elections, the private economy pushed back. Two years into the financial crisis and amid tea-party insurgencies, Democrats were swept out of office at every level of government.

These are not small events. Powerful belief systems are in motion today, and they are slamming into each other. Rep. Paul Ryan in the first sentence of his now-famous Roadmap budget said, "Rarely before have the alternatives facing America been so starkly defined." President Obama, announcing his ideas on taxes on July 9, said, "What's holding us back . . . is a stalemate in this town, in Washington, between *two very different views about which direction we should go in as a country*" (emphasis added).

Those are the two poles in an historic battle over who runs the American economy.

For about 40 years before 2008, spending as a percentage of GDP was around 20%. In 2009, it rose to 25% and has remained at 24% of GDP. This isn't just spending data. These numbers are a proxy for the standoff between the public economy and the private economy.

Some in the Democratic Party argue that this higher, "normal" spending level (the White House projects 22+% of GDP going forward) is necessary to fulfill the commitments our politics have made to retiring baby boomers and others. The role of the private economy in the U.S. will be to support the long-term wants and needs in the public economy.

President Obama is right: This is a choice between two paths into the American future, the clearest choice since the end of World War II. It is a mandate election.

Barack Obama is explicitly seeking a mandate to make the public economy pre-eminent. That is the unmistakable meaning of "You didn't build that." His opponent so far is talking about, but not seeking a mandate for, the other economy. One expects that in time Mitt Romney will seek a mandate equal to Mr. Obama's.